Building Nunavut Together
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Nunavut

Department of Finance
Kiinauyaliqiyikkut
Ministère des Finances

2013-14 Nunavut Liquor Commission Annual Report

TABLED IN THE LEGISLATIVE ASSEMBLY

BY THE HONOURABLE KEITH PETERSON, MLA

MINISTER OF FINANCE

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LETTER OF TRANSMITTAL

The Honourable Edna Ekhivalak Elias
Commissioner
Government of Nunavut

Dear Madame,

I have the honour of presenting the Annual Report for the Nunavut Liquor Commission covering the period April 1, 2013 to March 31, 2014.

Respectfully submitted,

_____

Hon. Keith Peterson
Minister of Finance
Minister Responsible for Liquor

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LETTER TO THE MINISTER

The Honourable Keith Peterson
Minister of Finance
Minister Responsible for Liquor

Nunavut Liquor Commission 2013–14 Annual Report

Pursuant to Subsection 61(1) of the *Liquor Act*, we are pleased to submit the 2013 – 2014 Annual Report for the Nunavut Liquor Commission for the fiscal year ended March 31, 2014.

We wish to express our thanks to all our staff for all their support and contribution to the progress of the Nunavut Liquor Commission during this past year.

Chris D'Arcy
Deputy Minister

Marion Love
Director of Nunavut Liquor Commission

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NUNAVUT LIQUOR COMMISSION

ORGANIZATIONAL OVERVIEW

The Commission is charged with operating liquor stores, purchasing, selling, classifying and distributing alcohol beverage products in Nunavut, as well as administration of Part II of the *Nunavut Liquor Act.* The Commission follows the reporting stipulations outlined in Part II of the Act and Part IX of the *Financial Administration Act.*

The Commission, in exercising its powers and performing its duties, is bound by the *Liquor Act* to the direction of the Minister. The Commission is headed by a Director who reports to the Minister through the Deputy Minister of Finance, as shown in the Organizational Structure in Figure 1. The Director oversees a staff of 13 employees, divided between Rankin Inlet and Iqaluit, including the Manager of Liquor Enforcement and Inspections, and Inspectors in Iqaluit and Rankin Inlet.

With its headquarters in Rankin Inlet, the Commission manages its retail and wholesale business through two distribution warehouses, one in Rankin Inlet and the other in Iqaluit. The Commission also oversees one permit agent office on contract in Cambridge Bay and provides permit services in-house in Rankin Inlet and Iqaluit. The Permit Agent Offices provide, for a fee, import permits to allow individuals to bring in liquor from outside Nunavut.

ORGANIZATIONAL STRUCTURE

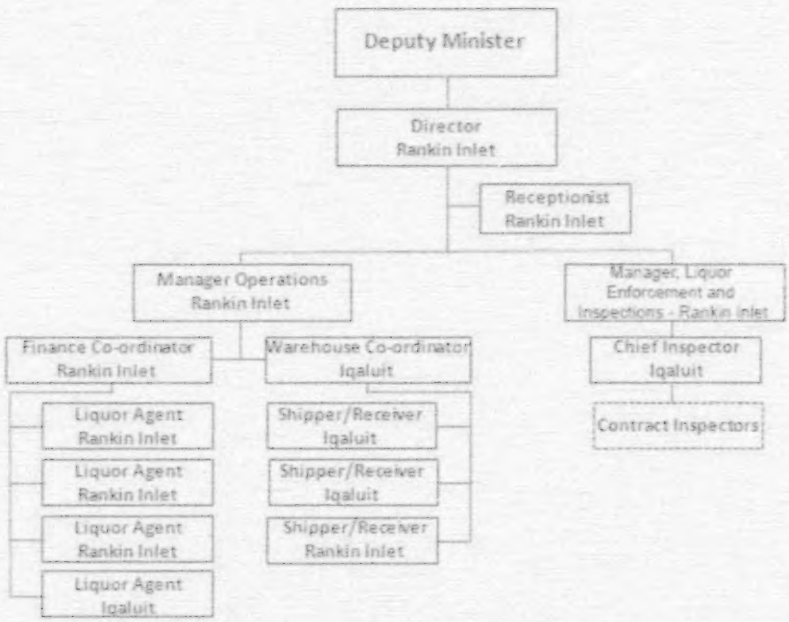


Figure 1: Organization Chart

LIQUOR RETAILING IN THE TERRITORY

Nunavut's geographical and infrastructure challenges make liquor retailing in the territory unconventional in the Canadian context. With a total population of approximately 36,408[1], 60 per cent of whom are of legal drinking age, the major challenge for liquor retailing in Nunavut is the need to service a very limited market, connected only by air and limited seasonal sea access, and spread out over a fifth of Canada's land mass. Among the many characteristics that set Nunavut's liquor distribution system apart from other jurisdictions in Canada, is its central processing structure. The Commission currently does not operate any liquor stores and all liquor orders are processed through the Commission's headquarters in Rankin Inlet and distributed via air cargo from either of the Commission's warehouses located in Iqaluit and Rankin Inlet. Licensed outlets are the exception; their purchases are picked up at the closest Commission warehouse.

To take advantage of the Government of Nunavut's greater purchasing power, the Commission's entire liquor inventory is purchased on behalf of the Commission by the Department of Community and Government Services' (CGS) Procurement Division.

As a matter of policy, the Procurement Division of CGS attempts to buy all products directly from breweries and distilleries. Due to small order volumes, some products are purchased through the Société des Alcools du Quebec (SAQ) or the Liquor Control Board of Ontario (LCBO).

Table 1: Mark-ups by category	
Spirits	$26.11
Wine	$7.96
Coolers	$3.27
Beer	$2.37

The Commission uses a flat rate per litre mark-up in the pricing of alcohol beverage products. An administration fee of $0.27 per litre is also applied.

The Commission's necessary reliance on air cargo for the distribution of liquor orders means that liquor purchases in Nunavut are faced with logistical considerations and additional freight and marshaling costs not commonly experienced across Canada.

One logistical hurdle concerns the payment of liquor orders through the Commission. At the present time, certified money instruments that include Money Orders, certified cheques, bank draft, or direct deposit to the Commission's bank account are all accepted as payment vehicles.

The Commission also accepts credit cards (Visa, Mastercard and American Express) for product payment, and residents of Iqaluit and Rankin Inlet are also able to use their debit cards for product payment. Once confirmed that payment has been received, the Commission ensures the product order is packaged and delivered to the airline for delivery to its destination.

Over and above the product price, there is an additional charge for handling and local cartage of $10 (plus GST) per order, and a bottle deposit return fee. The shipment is then sent freight collect to the customer. Freight costs vary, depending on distance, community and carrier used.

Flight schedule structures serving Nunavut impose a de facto waiting period on all liquor purchases in the territory (Licensees and holders of Special Occasion Permits excepted). Iqaluit residents must purchase their alcohol from the Rankin Inlet warehouse and conversely Rankin

[1] Nunavut Statistics, April 01, 2014 Population Statistics

Inlet residents must purchase their alcohol from Iqaluit. All other eligible residents of Nunavut may place their order at either facility.

LIQUOR ACT CHANGES

In September 2013 changes to the *Liquor Act* received assent from the Commissioner of Nunavut. In summary, these changes to the *Liquor Act*:

1. Allow individuals to carry away their purchases from a liquor store in anticipation of opening a beer and wine store;
2. Allow profits of the Liquor Commission to be used for social responsibility initiatives;
3. Increase fines for bootlegging; and
4. Increase the amount of liquor that can be personally imported without a permit.

In addition, a regulation was passed stating that the amount of funding that can be allocated to education campaigns promoting the socially responsible use of liquor (s. 59.1) is not to exceed $500,000 annually.

LIQUOR ENFORCEMENT AND INSPECTIONS

LIQUOR ENFORCEMENT AND INSPECTIONS ACTIVITY REPORT

All distribution of alcoholic beverage products authorized by liquor licenses and special occasion liquor permits issued under the Act are subject to inspection by Liquor Enforcement and Inspections. These inspections, also known as spot checks, are to ensure adherence to the Act and Regulations. Conditions pertaining to fire risk, health and safety infractions, and the use of tobacco in and around premises licensed for the sale of liquor are also subject to inspection.

Inspections are carried out by trained contract personnel. Any infractions observed are brought to the attention of the Chief Inspector in Iqaluit, who reports to the Manager of Liquor Enforcement and Inspections at the Commission headquarters in Rankin Inlet.

Infractions are discussed with the Department of Justice and, where warranted, the licensee must attend a show cause hearing before the Nunavut Liquor Licensing Board, with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of restrictions in accordance with the Act, and may result in the suspension of a license.

Table 2: Nunavut's Liquor Restriction Systems

The Liquor Act provides Nunavummiut with a ranked liquor restriction structure based on four systems, ranging from standard access to total exclusion. Communities choose their appropriate system by plebiscite. Described under section 48(2) of the Act these systems are:

1. An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;
2. A restricted quantities system has, in addition to the general liquor laws, restrictions on the quantity of liquor that a person may purchase
3. A committee system, in which a locally elected alcohol education committee decides:
   - who may consume, possess, purchase or transport liquor in the settlement, municipality or area,
   - who may import liquor into the settlement, municipality or area under the Act,
   - the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,
   - who may apply for a wine permit in the settlement, municipality or area and the amount of wine that a person may apply to make, and
   - who may brew beer for personal or family consumption in the settlement, municipality or area and the amount of beer that a person may brew;
4. A prohibition system, prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.

The Commission keeps a roster of three contract inspectors in Iqaluit and one inspector in Rankin Inlet. Regularly scheduled inspections were carried out with more focus on the busier evenings through the week and weekend. The Commission spent $13,200 on spot checks at a rate of $30 per inspection. There were 440 total inspections for 2013-14.

Table 3: Fee Structure	
Import Permit Fees	
Spirits	$3.75 per litre
Wine	$2.00 per litre
Coolers	$0.59 per litre
Beer	$0.56 per litre

Nunavummiut may also make a purchase through an import permit, which allows them a wider range of options for both selection and price. Should they choose to import their alcohol beverage product from outside the territory, individuals must purchase an import permit from one of the three permit agent offices in Cambridge Bay, Rankin Inlet or Iqaluit.

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their community's AEC to seek approval to bring alcohol beverage products into the community. The AEC may place restrictions on the purchase or even deny the application (see Table 2 for liquor restriction systems and Table 4 for community system breakdown). Once an individual has obtained permission from the community AEC, an order may be placed or a permit purchased.

Table 4: Breakdown of communities by their chosen system		
Unrestricted	**Committee**	**Prohibited**
Cambridge Bay	Arctic Bay	Arviat
Grise Fiord	Baker Lake	Coral Harbour
Iqaluit	Cape Dorset	Gjoa Haven
Rankin Inlet	Chesterfield Inlet	Kugaaruk
Taloyoak	Clyde River	Pangnirtung
	Hall Beach	Sanikiluaq
	Igloolik	
	Kimmirut	
	Kugluktuk	
	Pond Inlet	
	Qikiqtarjuaq	
	Repulse Bay	
	Resolute Bay	

One final aspect of liquor retailing in Nunavut is the Commission's effort to encourage recycling through container deposits. The Commission places a container deposit on all liquor purchases made, whether bottle, can, or other, and is prepared to accept returned empty liquor containers at any established recycling centre. The Commission charges $0.29 for bottles and $0.14 per can.

The Minister ordered three plebiscites during the fiscal year for the communities of Arviat, Chesterfield Inlet and Kugluktuk. There was no change in the status of these communities as a result of the plebiscites.

AEC member elections were conducted in Arctic Bay, Baker Lake, Hall Beach, Igloolik, Kimmirut, Pond Inlet and Resolute Bay during December 2013. Many new members were elected.

Special interim elections had to be held in Cape Dorset, Chesterfield Inlet, Clyde River, Kugluktuk, Repulse Bay and Whale Cove, as these communities had not conducted elections in at least two years, jeopardizing their authority to conduct business under the *Liquor Act*. Elections for these communities will again be held in December 2014.

AEC CONFERENCE

Representatives from Resolute Bay, Pond Inlet, Arctic Bay, Clyde River, Kimmirut, Cape Dorset, Hall Beach, Igloolik, Sanikiluaq, Coral Harbour, Repulse Bay, Whale Cove, Chesterfield Inlet and Taloyoak met in Iqaluit in October 2013. The main purpose of the meeting was to gain information about the changes to the *Liquor Act* and exchange best practices.

Delegates identified several issues that will require follow-up by the Nunavut Liquor Enforcement and Inspections:

1. Honoraria clarification for member's contribution to operation of AEC.
2. More training is needed for all new members.
3. Increased funding to support community initiatives.
4. Annual AEC meetings should be held to share best practices.

MANAGEMENT DISCUSSION AND ANALYSIS AND UNAUDITED SCHEDULES

The fiscal year 2013-14 was the Commission's tenth full year of operation since taking over responsibility for the public agency from the Government of the Northwest Territories in October 2004.

Overall, the Commission sold 576,133 liters of alcohol in Nunavut worth $5,316,000 in 2013-14.

Table 5: Gross Product Sales

	2013-14		2012-13		Change vs 2012-13	
	Litres	$000s	Litres	$000s	Litres	$000s
Spirits	39,296	1,570	42,677	1,710	-3,381	-140
Wine	37,072	636	38,505	629	-1,433	7
Cooler	9,492	83	10,386	86	-894	-3
Beer	490,273	3,027	526,630	3,249	-36,357	-222
Product Sales	**576,133**	**5,316**	**618,198**	**5,674**	-42,065	-358
Other Revenue	-	675	-	733	-	-58
Total	**576,133**	**5,991**	**618,198**	**6,407**	-42,065	-416

Table 5 illustrates the breakdown of the Commission sales by category of alcohol.

Total Revenue decreased by $415,974 or 6.5% between 2013-2014 and 2012-2013. The decrease in sales could be attributed to local air carriers providing a more competitive rate to

consumers. Customers in the Kivalliq region have certainly switched from warehouse purchases to importing alcohol from Manitoba. The Gross Margin decreased by $182,442 or 4.6%.

Import Permits, Licensee Fees, Licenses, Special Occasion Permits and fines generated a total of $733,682 in revenue. This is broken out by $728,026 in Import Permit Fees and $5,656 in Licensee Fees, License Renewal Fees and Special Occasion Permits and fines.

Table 6:Import Permit License Fees $000's			
Category	**2013-14**	**2012-13**	**Change**
Import Fees	728	703	25
License & SOP	5	12	-7
Fines	1	13	-12
Total	**734**	**728**	**6**

Commission Salaries increased with the hiring of a Director and Manager, with a corresponding offset in professional fees as a financial consultant was no longer needed. Enforcement Salaries decreased with the resignation of the Manager of Liquor Enforcement and Inspections in October 2013. Office expenses increased with the purchase of software and support services to get the tools needed for data analysis. Travel expenses increased for attending jurisdictional conferences, meetings related to planning the first store opening and an AEC conference. The Commission's net Income decreased by $272,400 or 20.0%; consolidated net Income decreased by $259,772 or 15.5%.

The following two tables (7 and 8) show the total sales from the Liquor Commission operated liquor warehouses, situated in Rankin Inlet and Iqaluit.

Table 7: Sales by Location in Litres							
	Iqaluit		**Rankin Inlet**		**Total**		**Change**
Litres	**2013-14**	**2012-13**	**2013-14**	**2012-13**	**2013-14**	**2012-13**	
Spirits	26,915	27,494	12,381	15,183	39,296	42,677	- 3,381
Wine	28,682	28,940	8,390	9,564	37,072	38,505	- 1,433
Cooler	7,481	,242	2,011	2,144	9,492	10,386	- 894
Beer	433,198	469,127	57,075	57,503	490,273	526,630	- 36,357
Total	496,276	533,803	79,857	84,394	576,133	618,198	- 42,065

Table 8: Sales by Location in $000's							
Category	**Iqaluit**		**Rankin Inlet**		**Total**		**Change**
	2013-14	**2012-13**	**2013-14**	**2012-13**	**2013-14**	**2012-13**	
Spirits	**1,071**	**1,102**	**499**	**608**	1,570	1,710	-140
Wine	**490**	**478**	**146**	**151**	636	629	7
Cooler	**66**	**69**	**17**	**17**	83	86	-3
Beer	**2,676**	**2,895**	**351**	**354**	3,027	3,249	-222
Product Sales	**4,303**	**4,544**	**1,013**	**1,130**	**5,316**	**5,674**	-358
Other Revenue	546	587	129	146	675	733	-58
Total	**4,849**	**5,131**	**1,142**	**1,276**	**5,991**	**6,407**	-416

As we can see in the above tables the volume of sales is going down in both locations indicating that Nunavummiut to a larger extent are importing their alcohol from outside our jurisdiction.

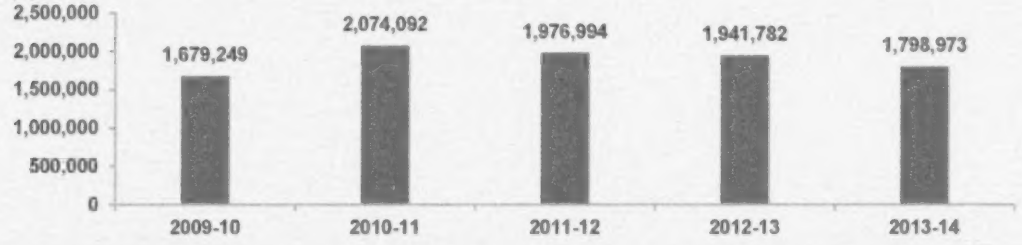
CUSTOMER SALES BY COMMUNITY

We are experiencing a drop in customer sales and have seen a rise in the sales of import permits (See table 6); indicating customers find it increasingly favorable for them to import their alcohol from outside our territory.

Table 9.

Total Customer Sales since 2009-10

($)



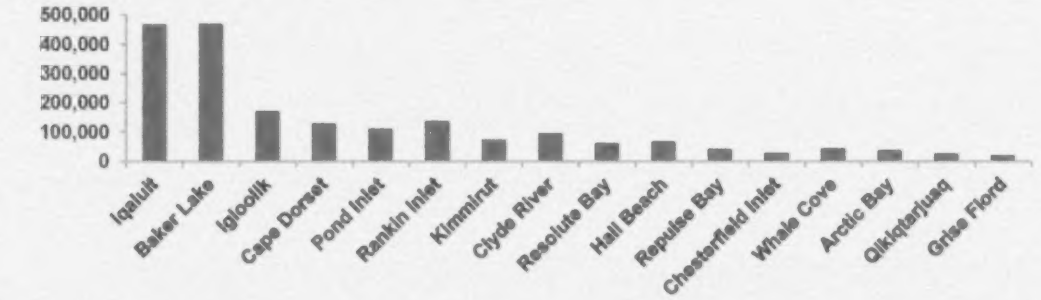
Customer sales exclude sales through special occasion permits, or to licensees, outfitters or group customers. Sales figures also exclude GST, bottle deposits and handling fees.

The highest yielding sales year was 2011 with a 24% increase over the previous year. The most dramatic increase was the Clyde River sales at 60% and the most dramatic decrease was Rankin Inlet sales at -71%, both of which were recorded in the 2014 fiscal year. The dramatic decrease can be attributed to Rankin Inlet customers choosing to import alcohol rather than purchasing their liquor from the Iqaluit warehouse.

Table 10.

Customer Sales by Community (2013-14)

($ millions)

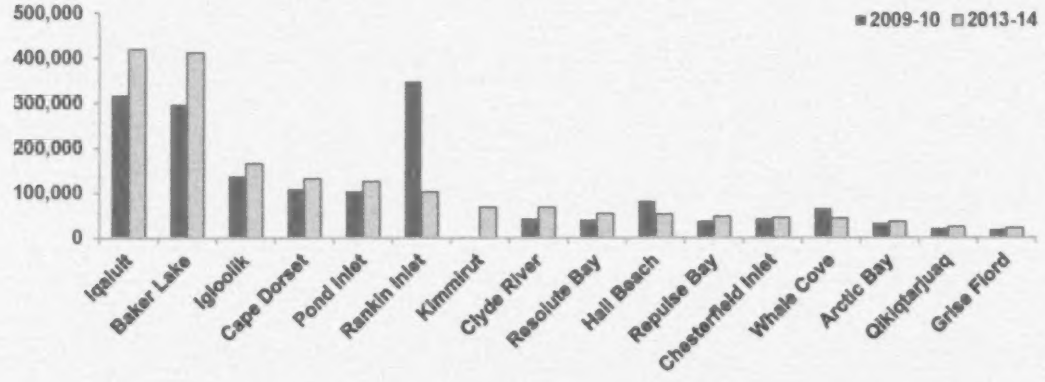


Customers in Iqaluit and Baker Lake are the two communities that purchase the most alcohol through the Nunavut Liquor Commission and that have experienced the largest increases in the past five years. We expect this trend to continue in coming years.

Rankin Inlet has experienced a dramatic drop in sales from the Liquor Commission and it seems that the customers in Rankin Inlet prefer importing their alcohol from other jurisdictions and that this is a trend that will continue unless the Liquor Commission can improve service and convenience to again attract more customers from Rankin Inlet.

Table 11.

Change in Customer Sales, by Community (2009-10 and 2013-14)
($ millions)



SALES BY CATEGORY

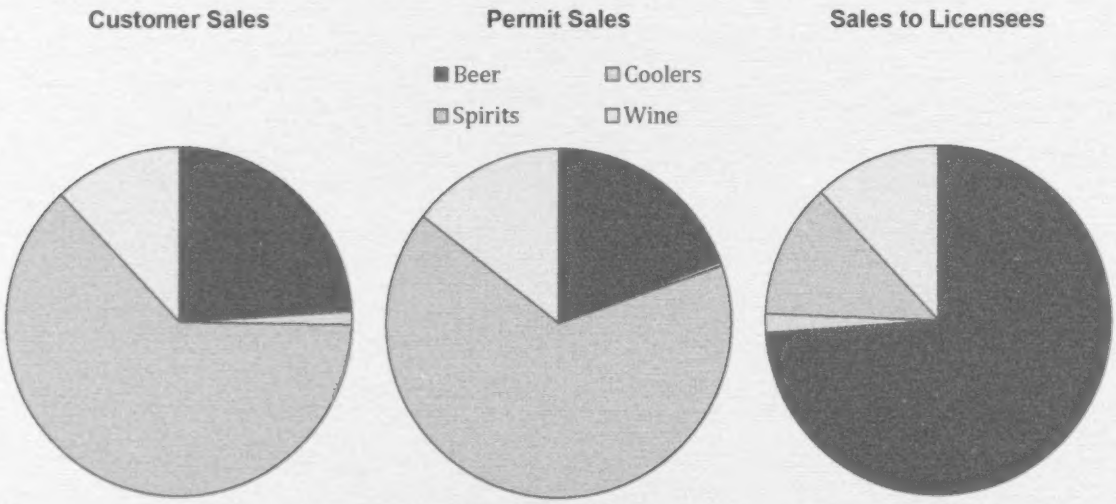
When comparing customer warehouse and permit sales to Licensees sales, several trends emerge. First, licensees have observed that their sales have declined over the last two to three years. Licencees have cited that fewer major capital projects have decreased the number of seasonal workers that may patronize their licensed establishments. Secondly, customers may be choosing to consume alcohol in the comfort of their own homes as permit sales have increased while warehouse sales have decreased.

It is interesting to note that the revenue from wine sales have increased significantly over the past five years.

Permit sales for Rankin Inlet dramatically increased over the five year period just as warehouse sales decreased. Many Rankin Inlet customers have claimed that it is cheaper to bring liquor from Churchill, Manitoba than it is to order from Iqaluit.

Table 12.

Sales by Alcohol Category and Sales Type (2013-14)



LICENSEE SALES

Licensees have informed the Commission for the last two years that their sales are decreasing. Table 12 illustrates the feedback. Beer sales have dropped the most and by far generated the most revenue for the Licensees. The increase in wine sales is also mirrored in warehouse and import permit sales.

IMPACT OF IMPORT PERMITS

When a permit is issued, Nunavut "loses" the mark-up from the sale of the item. The mark-up (see p. 2 for additional information on the legislative mark-up) for 1 L of spirits sold in Nunavut is $26.11. Thus a sum of $22.36 is lost for every litre of spirits that are purchased outside Nunavut such as Northwest Territories (via Yellowknife), and Manitoba (via Churchill) Liquor Commissions and vendors in Quebec and Ontario

Table 13: Lost Mark-Up from the Issuance of Import Permits					
For the Year ending March 31, 2014					
	Iqaluit	Rankin	Kitikmeot		Total
Spirits ($26.11 - $3.75)	1,116,374	550,902	576,420		2,243,697
Wine ($7.96 - $2.00)	156,740	34,747	26,346		217,833
Beer ($2.37 - $0.56)	238,625	79,285	52,813		370,723
Coolers ($3.27 - $0.69)	3,868	2,302	4,389		10,558
Total lost revenue	1,515,607	667,236	659,968		2,842,811
Net Change in Lost Revenue from Issuance of Import Permits					
2010 to 2014 Comparative Changes (Percentage %)					
	Iqaluit	Rankin	Kitikmeot		Total
Spirits	12%	7%	-18%		3%
Wine	18%	24%	-3%		17%
Beer	-1%	6%	-10%		-1%
Coolers	15%	-5%	-25%		-6%
Net Change	11%	8%	-17%		4%

NUNAVUT AND OTHER JURISDICTIONS

Table 14: Wine Sales Canada Wide										
Jurisdiction	2010	2011	2012	2013	% of Total Sales	Rank	% of total +19yrs of Age	+19 yrs of age	$s/ capita 2011	Rank by per capita spending
Quebec	2,025,630	2,113,857	2,257,480	2,320,885	34.133%	1	23.934%	6,256,305	0.338	1
BC	946,762	978,562	1,013,678	1,054,865	15.514%	3	13.402%	3,503,310	0.279	2
Yukon	6,765	7,337	8,148	8,512	0.125%	11	0.101%	26,285	0.279	3
Ontario	1,893,529	2,020,411	2,137,207	2,263,607	33.291%	2	38.195%	9,984,045	0.202	4
Alberta	498,119	518,248	553,291	614,199	9.033%	4	10.602%	2,771,180	0.187	5
Nova Scotia	115,260	121,964	129,585	130,013	1.912%	6	2.824%	738,160	0.165	6
Manitoba	124,679	130,423	136,679	146,472	2.154%	5	3.474%	908,075	0.144	7
PEI	14,337	15,202	16,540	17,253	0.254%	10	0.419%	109,510	0.139	8
Newfoundland	50,481	55,554	62,565	66,201	0.974%	9	1.585%	414,380	0.134	9
New Brunswick	76,598	80,458	82,186	85,621	1.259%	8	2.300%	601,150	0.134	10
Saskatchewan	76,037	80,262	84,340	91,277	1.342%	7	2.977%	778,205	0.103	11
Northwest Territories	466	467	485	505	0.007%	12	0.114%	29,745	0.016	12
Nunavut	32	44	34	39	0.001%	13	0.073%	19,010	0.002	13
Total	**5,828,695**	**6,122,789**	**6,482,218**	**6,799,449**				**26,139,360**		

Data for wine sales for several fiscal years and for all jurisdictions was only available to present. Nunavut has the lowest sales and expenditure per capita compared to other jurisdictions in Canada.

NUNAVUT LIQUOR COMMISSION

Rankin Inlet, NU

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2014

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Nunavut Liquor Commission (NLC) is responsible for the integrity and objectivity of the consolidated financial statements and related note disclosures. The consolidated financial statements were prepared in accordance with Canadian Public Sector Accounting Standards and, consequently, include some amounts which are based on the best estimates and judgment of management.

In carrying out its responsibilities, management is responsible for the operation of financial systems and related internal controls to provide reasonable assurance that financial information presented by the management of NLC is reliable, assets are safeguarded, transactions are properly authorized, resources are managed efficiently and economically, and operations are carried out effectively in the attainment of corporate objectives, and that transactions are in accordance with the *Liquor Act* and the *Financial Administration Act* of Nunavut.

The external auditors, Lester Landau, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of NLC and meet when required.

Chris D'Arcy
Deputy Minister
Department of Finance

Marion Love
Director
Nunavut Liquor Management

June 10, 2014

LESTER LANDAU
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of the Government of Nunavut

We have audited the accompanying consolidated financial statements of the Nunavut Liquor Commission, which comprise the consolidated statement of financial position as at March 31, 2014 and March 31, 2013 and the consolidated statements of operations, changes in net financial debt, amount due to the Government of Nunavut, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

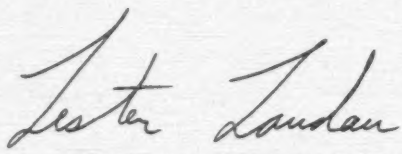
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nunavut Liquor Commission as at March 31, 2014 and March 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with Canadian Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of Nunavut we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

We further report in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act* of Nunavut and regulations, and the by-laws of the Nunavut Liquor Commission that, in our opinion, proper books of account have been kept by the Nunavut Liquor Commission, the consolidated financial statements are in agreement therewith and the transactions that have come under our notice have, in all significant respects, been within the statutory powers of the Nunavut Liquor Commission.



CHARTERED ACCOUNTANTS

Iqaluit, Nunavut
June 10, 2014

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	March 31 2014	March 31 2013
Financial Assets		
Cash	$ 750	$ 750
GST receivable	39,549	-
Inventories (note 3)	1,559,621	1,862,124
	1,599,920	1,862,874
Liabilities		
Accounts payable and accrued liabilities	62,462	452,090
Employee future benefits (note 4)	123,078	67,786
Bottle deposit outstanding	18,192	25,085
Deferred revenue	27,624	33,026
Due to Government of Nunavut	1,445,327	1,341,734
	1,676,683	1,919,721
Net Financial Debt	(76,763)	(56,847)
Non-Financial Assets		
Prepaid expenses	12,623	-
Tangible capital assets (note 5)	64,140	56,847
	76,763	56,847
Accumulated Surplus	$ -	$ -

Commitments (note 7)

Marion Love
Director
Nunavut Liquor Management

Chris D'Arcy
Deputy Minister of Finance
Department of Finance

The accompanying notes and schedules are an integral part of these consolidated financial statements. 4

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended March 31,	2014	2013
Sales	$ 5,990,846	$ 6,406,820
Cost of Sales	2,236,836	2,470,368
Gross Margin	3,754,010	3,936,452
Other Income		
Import fees	728,026	703,047
Interest and other income	-	13,884
Licence, fees and permits	5,656	11,537
	4,487,692	4,664,920
Expenses		
Administration and operations (Schedule 1)	2,662,084	2,572,710
Enforcement and inspections (Schedule 2)	409,636	416,466
	3,071,720	2,989,176
Net Surplus	1,415,972	1,675,744
Accumulated Surplus, beginning of year	-	-
Accumulated Surplus, end of year	$ -	$ -

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL DEBT

For the year ended March 31,	2014	2013
Net surplus for the year	$ 1,415,972	$ 1,675,744
Amortization of tangible capital assets	14,529	18,371
Disposal (acquisition) of tangible capital assets	(21,822)	-
Prepaid expenses	(12,623)	-
Transfer of net surplus for the year to the Government of Nunavut	(1,415,972)	(1,675,744)
	(1,435,888)	(1,657,373)
Decrease (increase) in net financial debt	(19,916)	18,371
Net financial debt, beginning of year	(56,847)	(75,218)
Net financial debt, end of year	$(76,763)	$(56,847)

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF NUNAVUT

For the year ended March 31,	2014	2013
Balance, beginning of year	$ 1,341,734	$ 1,465,894
Net surplus for the year	1,415,972	1,675,744
Net transfer of funds to the Government of Nunavut	(1,312,379)	(1,799,904)
	$ 1,445,327	$ 1,341,734

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31,	2014	2013
Cash Flows from Operating Activities		
Cash receipts from customers	$ 6,679,577	$ 7,362,849
Cash paid to suppliers and employees	(5,345,376)	(5,563,529)
Cash transferred to the Government of Nunavut (Net)	(1,312,379)	(1,799,904)
Interest received	-	584
Cash Provided by Operating Activities	21,822	-
Purchase of property and equipment	(21,822)	-
Cash Used in Investing Activities	(21,822)	-
Net Increase / (Decrease) in Cash	-	-
Cash, beginning of year	750	750
Cash, end of year	$ 750	$ 750

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

1. Authority and Operations

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2013 - 2014 fiscal year. While some expenses are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licences and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

2. Significant Accounting Policies

(a) Consolidated Financial Statements

NLC's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

(b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. There were no inter-entity balances and transactions which had to be eliminated in determining the consolidated figures.

2. Significant Accounting Policies (continued)

(c) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian Public Sector Accounting Standards requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, services received without charge, the provision for employee future benefits and the useful lives of equipment.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of a small cash float that is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Liquor Revolving Fund. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All sales and other cash receipts of the Nunavut Liquor Enforcement are deposited into the Government of Nunavut Consolidated Revenue Fund. All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund.

(e) Inventories

Inventories consist of alcohol products valued at the lower of cost or net realizable value on a first-in, first-out basis.

(f) Accounts Receivable

Accounts receivable are valued at the lower cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the balance sheet date that are known at the date these consolidated financial statements are prepared.

2. Significant Accounting Policies (continued)

(g) Tangible Capital Assets

Tangible Capital Assets are initially recorded at cost, and are subsequently amortized to expense. Amortization expense is recognized on a declining balance basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

Computer hardware	30%
Computer software	100%
Furniture and equipment	20%

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave, and severance liabilities have been included in accrued liabilities.

(i) Bottle Deposit Liability

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licensees and clients to return recyclables for refund.

(j) Deferred Revenue

Deferred revenue includes revenues received in advance of goods being provided or services being performed with stipulations that meet the definition of a liability per Section PS 3200. When stipulations are met, deferred revenue is recognized as revenue in the fiscal year in a manner consistent with the circumstances and evidence used to support the initial recognition of the revenue received as a liability.

2. Significant Accounting Policies (continued)

(k) Employee Future Benefits

Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 1.45 times the employees contribution for the calendar year of 2014 (1.64 times for the calendar year of 2013). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

(l) Revenue Recognition

Revenue from sales of liquor and import fees are recorded when the customer places their order, it has been paid in full and the products have been shipped.

Revenue from licence fees and permits are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

(m) Expenses

Expenses are recorded on an accrual basis. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund without reimbursement.

(n) Services Provided Without Charge

There are no longer any services provided without charge to the NLC.

2. Significant Accounting Policies (continued)

(o) Financial Instruments

The NLC initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The NLC subsequently measures all its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, employee future benefits, bottle deposit outstanding and amounts due to the Government of Nunavut.

(p) Due to the Government of Nunavut

The *Liquor Act (Nunavut)* requires the NLC to present the amount owing to the Government of Nunavut. This is calculated by summing the following amounts: The Balance owing at the end of the prior year, the Net Surplus for the year, less the net funds transferred to the Government of Nunavut during the year. The ending balance is normally carried forward to be funded from future year's Net Surplus.

This balance is a non-interest bearing liability.

3. Inventories

	March 31 2014	March 31 2013
Spirits	$ 530,208	$ 672,264
Wine	318,715	363,125
Beer	682,525	799,212
Coolers and ciders	28,173	27,523
	$ 1,559,621	$ 1,862,124

4. Employee Future Benefits

Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs. As at March 31, 2014 severance and removal costs total $50,471 ($10,813 - 2013).

Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and best five years average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	2014	2013
Employer's contributions	$ 136,467	$ 120,538
Employees' contributions	$ 85,865	$ 70,459

The Employee Future Benefits accrued by the NLC for the current year relate to accrued leave benefits.

5. Tangible Capital Assets

	Cost	Accumulated Amortization	March 31 2014 Net Book Value	March 31 2013 Net Book Value
Computer hardware	$ 53,669	$ 46,830	$ 6,839	$ 9,770
Computer software	50,777	50,777	-	-
Furniture and equipment	157,590	100,289	57,301	47,077
	$ 262,036	$ 197,896	$ 64,140	$ 56,847

6. Expenses by Object

	2014	2013
Salaries and benefits	$ 1,826,440	$ 1,623,240
Rent	443,516	422,516
Bottle deposits refund	167,347	189,365
Professional fees	12,989	294,822
Repairs and maintenance	90,324	72,306
Contractor fees	79,437	95,070
Office	112,384	69,171
Bank charges and interest	93,302	74,481
Utilities	74,117	68,993
Travel	103,345	17,584
Communication	39,462	37,326
Plebiscite expenses	11,070	5,931
Amortization	14,529	18,371
Training and development	3,458	-
	$ 3,071,720	$ 2,989,176

7. Commitments

There is a two year lease effective April 1, 2014, expiring April 1, 2016, for warehouse and office premises in Rankin Inlet. A five year lease agreement, effective April 1, 2012, and expiring April 1, 2017, for the liquor warehouse in Iqaluit valued at $120,000 per year is also in place. Additional warehouse space was obtained as of October 1, 2012 on a monthly basis for $3,500 per month. The minimum annual lease payments are as follows:

Fiscal year ending March 31	Total
2015	$ 411,371
2016	411,371
2017	120,000
	$ 942,742

8. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Crown corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut at cost and Qulliq Energy Corporation at normal trade terms, during the normal course of business:

	2014	2013
Government of Nunavut:		
Communications	$ 9,350	$ 9,121
Office	36,442	24,964
Rent (note 7)	162,000	141,000
Repairs and maintenance	89,155	64,942
Property taxes	29,874	28,831
Qulliq Energy Corporation		
Utilities (electricity)	14,008	12,136
	$ 340,829	$ 280,994

9. Capital Management

NLC's capital is cash, it has no Contributed Equity. NLC is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advance for the 2013-14 fiscal year.

All revenues collected by the NLC are deposited into a bank account controlled by the Government of Nunavut. As the Government of Nunavut controls all cash deposited by the NLC, the Government of Nunavut pays for all the expenses of the NLC.

10. Financial Instruments and Risk Management

Credit Risk - Credit risk refers to the potential that a customer or counter party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the NLC's receivables from customers. NLC has minimum exposure to credit risk from customers as collection is made prior to sales. Where necessary, the NLC performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses.

Interest Rate Risk - Interest rate risk is the risk that the fair values of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The NLC is not exposed to interest rate risk because the NLC has no investments or debt.

Liquidity Risk - Liquidity risk is the risk that the NLC will not be able to meet its financial obligations as they fall due. The NLC is not exposed to liquidity risk, although some expenses of NLC are paid directly from the Liquor Revolving Fund, others are paid directly by the Government of Nunavut through the Consolidated Revenue Fund and reimbursed from the Liquor Revolving Fund.

Foreign Currency Risk - The NLC is not exposed to risk arising from fluctuation in foreign exchange rates since it enters into sales and purchase transactions denominated in Canadian currency.

Unless otherwise noted, it is management's opinion that NLC is not exposed to other significant interest, currency or credit risks arising from these financial instruments.

11. Comparative Figures

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

NUNAVUT LIQUOR COMMISSION

SCHEDULE 1 - NUNAVUT LIQUOR COMMISSION

For the year ended March 31,	2014	2013
Sales	$ 5,990,846	$ 6,406,820
Cost of Sales	2,236,836	2,470,368
Gross Margin	3,754,010	3,936,452
Other Income		
Import fees	-	-
Interest and other income	-	584
Licence, fees and permits	-	-
	3,754,010	3,937,036
Expenses		
Salaries and benefits	1,610,941	1,341,068
Rent	443,516	422,516
Bottle deposits refund	167,347	189,365
Professional fees	12,989	294,822
Repairs and maintenance	90,324	72,306
Office	109,246	59,998
Bank charges and interest	75,649	67,756
Property taxes and utilities	74,117	68,993
Travel	23,191	2,843
Communication	36,777	34,672
Amortization	14,529	18,371
Training and development	3,458	-
	2,662,084	2,572,710
Revenue in Excess of Expenses	$ 1,091,926	$ 1,364,326

NUNAVUT LIQUOR COMMISSION

SCHEDULE 2 - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

For the year ended March 31,	2014	2013
Sales	$ -	$ -
Cost of Sales	-	-
Gross Margin	-	-
Other Income		
Import fees	728,026	703,047
Interest and other income	-	13,300
Licence, fees and permits	5,656	11,537
	733,682	727,884
Expenses		
Salaries and benefits	215,499	282,172
Contractor fees	79,437	95,070
Plebiscites expenses	11,070	5,931
Travel	80,154	14,741
Bank charges and interest	17,653	6,725
Office	3,138	9,173
Communication	2,685	2,654
	409,636	416,466
Revenue in Excess of Expenses	$ 324,046	$ 311,418